

Message Text

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ACTION MMO-04

INFO OCT-01 AF-08 NEA-10 ISO-00 AID-05 CIAE-00 COME-00
EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 L-03 H-02
NSC-05 SS-15 STR-04 CEA-01 PA-02 PRS-01 AGRE-00 INT-05
OES-06 /122 W

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R 100625Z JAN 77

FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC 3345

INFO AMEMBASSY ABU DHWOI

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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SUBJECT: 1976 AND SUDAN'S ECONOMIC PROSPECTS

REF: (A) ERP 102 (B) CERP 205

SUMMARY: RESULTS FOR 1976 WERE MIXED. ECONOMIC PROBLEMS WERE PAINFULLY EVIDENT INCLUDING INFLATION AND CONSUMER GOOS SHORTAGES. GOVERNMENT RHETORIC ABOUT ECONOMIC ACHIEVEMENTS HAS BEEN TARNISHED. BUT SUDAN'S PERFORMANCE COMPARES MOST FAVORABLY WITH OTHER AFRICAN NON-OIL EXPORTING LDC'S. PROBLEMS WITH IRRIGATED AGRICULTURE PROBABLY SLACKENED OVERALL GROWTH RATE. DESPITE DECREASED PRODUCTION, COTTON EXPORT EARNINGS INCREASED OVER 1975. INVESTMENT GOODS IMPORTS HAVE CONTINUED TO INCREASE AND THEIR FINANCING IS MAJOR CAUSE OF BOP PROBLEMS. SUDAN WILL REQUIRE SAUDI OR OTHER ARAB BOP SUPPORT FOR AT LEAST SEVERAL YEARS SIMILAR TO THAT RECENTLY RECEIVED. PROJECTS UNDERWAY
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SHOULD PROVIDE BENEFITS WITHIN SEVERAL YEARS. TRANSPORTATION INFRASTRUCTURE PROBLEMS ARE BEING ATTACKED VIGOROUSLY BUT SOLUTION TO HUMAN RESOURCES SHORTAGES ARE NOT APPARENT. MOST OBSERVERS ARE OPTIMISTIC ABOUT SUDAN'S LONG TERM ECONOMIC POTENTIAL AND ARAB INVESTORS ARE DEMONSTRATING THEIR WILLINGNESS TO MAKE VERY SUBSTANTIAL COMMITMENTS TO

SUDANESE AGRICULTURAL DEVELOPMENT, END SUMMARY.

1. 1976 WAS A MIXED YEAR FOR SUDAN'S ECONOMY. SUBSTANTIAL FOREIGN ASSISTANCE WAS RECEIVED. INVESTMENT LEVELS IN INFRASTRUCTURE AND OTHER SECTORS PROBABLY WERE MAINTAINED. ARAB DETERMINATION TO MAKE SUBSTANTIAL INVESTMENTS IN AGRICULTURAL AND RELATED INFRASTRUCTURE BECAME MORE EVIDENT. YET, SUDAN'S ECONOMIC PROBLEMS WERE PAINFULLY EVIDENT.

2. FOR THREE YEARS INFLATION HAS APPROACHED OR EXCEEDED 20 PERCENT ANNUALLY WHILE WAGES WERE PRACTICALLY FROZEN. URBAN GOVERNMENT AND PUBLIC SECTOR EMPLOYEES PARTICULARLY HAVE BEEN HURT. CONSUMER GOODS ARE IN SHORT SUPPLY INCLUDING ESSENTIAL COMMODITIES SUCH AS COFFEE, TEA AND PETROLEUM PRODUCTS. ALTHOUGH MOST SUDANESE BEAR HARDSHIP WITH FEW COMPLAINTS, MOST REALIZE THAT THEIR LIVING STANDARDS DECLINED DURING 1976. GOVERNMENT RHETORIC ABOUT THE ECONOMY HAS BEEN TARNISHED BY ALL TOO OBVIOUS DEPRIVATIONS.

3. DESPITE SOME SKEPTICISM ABOUT THE ECONOMIC ACHIEVEMENTS OF NIMEIRI'S REGIME, SUDAN'S ECONOMIC PERFORMANCE COMPARES MOST FAVORABLY WITH OTHER AFRICAN NON-OIL EXPORTING LDC'S. REAL GDP IN 1974 AND 1975 GREW AT AN OUTSTANDING ANNUAL RATE OF 4-5 PERCENT. HOWEVER, WE SUSPECT THIS GROWTH RATE WAS NOT MAINTAINED IN 1976.

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4. FAILURES IN IRRIGATED AGRICULTURE WERE PRIMARILY RESPONSIBLE FOR SLACKENED GROWTH. COTTON, SUDAN'S PRINCIPAL EXPORT CROP, WAS HARD HIT. PRODUCTION WAS ABOUT ONE-HALF OF THE PREVIOUS YEAR AND DECLINED TO LESS THAN 500,000 BALES. POOR MANAGEMENT, LACK OF INSECTICIDES, RATS AND LABOR SHORTAGES CONTRIBUTED. OTHER IRRIGATED CROPS ALSO SUFFERED INCLUDING PEANUTS WHICH WERE AFFECTED BY RATS. ON THE OTHER HAND, PRODUCTION FROM RAINFED AGRICULTURE CONTINUED ITS STEADY RAPID GROWTH.

5. DESPITE DECLINES IN PRODUCTION, COTTON EXPORT EARNINGS INCREASED OVER 1975. WORLD PRICES RECOVERED AND SUBSTANTIAL CARRYOVERS FROM 1975 WERE SOLD. AT THE SAME TIME, THE CENTRAL BANK RESTRAINED IMPORTS OF CONSUMER GOODS. WE EVEN SUSPECT THAT IN REAL TERMS CONSUMER IMPORTS MAY HAVE DECLINED. IMPORTERS NOW MUST WAIT FOR 8-10 MONTHS FOR FOREIGN EXCHANGE FOR THEIR APPROVED CONSUMER GOODS LICENSES. A YEAR AGO THE

COMPARABLE WAITING PERIOD WAS 5-6 MONTHS.

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6. IMPORTS OF INVESTMENT GOODS CONTINUE TO INCREASE. THEY CONSTITUTE A SUBSTANTIAL PORTION OF SUDAN'S TRADE DEFICIT AND HAVE SERIOUS BOP IMPLICATIONS. IN MANY CASES, LONG TERM PROJECTS HAVE BEEN LAUNCHED BASED ON SHORT TERM FINANCING. IT IS ASSUMED THAT EXPORT EARNINGS CAN ABSORB DOWN PAYMENTS OF 10-20 PERCENT COSTS AND THAT MEDIUM TERM SUPPLIER FINANCING WILL BE SUFFICIENT FOR THE REMAINDER. SUCH FINANCING IS MAJOR CAUSE OF PAYMENT PROBLEMS.

7. MANY OF THE PROJECTS WHICH WERE FINANCED IN THIS MANNER ARE NOT YET IN PRODUCTION. AFTER SEVERAL YEARS THEIR BENEFITS SHOULD BECOME MORE APPARENT. FOR EXAMPLE HALF DOZEN TEXTILE PROJECTS ARE NOT YET IN PRODUCTION WHILE SUDAN CONTINUES TO IMPORT SUBSTANTIAL QUANTITIES. BOTH IMPORT AND EXPORT COSTS SHOULD BE REDUCED BY TRANSPORTATION PROJECTS IN EXECUTION PHASES. WITHIN NEXT FEW MONTHS, NEW

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PETROLEUM PIPELINE FROM PORT SUDAN TO KHARTOUM SHOULD BE OPERATIONAL. ALL-WEATHER ROAD FROM PORT SUDAN TO KHARTOUM SHOULD BE OPENED IN 1978. QUARTER BILLION DOLLAR-IRRIGATION SCHEME (RAHAD) SHOULD BE HAVING ECONOMIC IMPACT WITHIN TWO YEARS. HOWEVER, MASSIVE INVESTMENTS IN SUGAR INDUSTRY PROBABLY WILL NOT

HELP BOP UNTIL LATE 1980'S BECAUSE OF HEAVY DEBT SERVICING COSTS (SEE KHARTOUM A-3).

8. GIVEN THIS TYPE OF PROJECT FINANCING, SUDAN CHRONICALLY NEEDS BOP SUPPORT THROUGH GRANTS AND LOANS. FACING THIS PROBLEM, THE CENTRAL BANK HAS EXERTED STRONG RESTRAINING INFLUENCE ON EXPANSIONIST MINISTRY OF FINANCE PRESSURES. THE BANK APPEARS UNWILLING TO ASSUME GREATER SHORT TERM LIABILITIES AT THE SAME TIME THAT FOREIGN COMMERCIAL BANKS APPEAR CONSTRAINED NOT TO SUBSTANTIALLY INCREASE THEIR EXPOSURE. CENTRAL BANK APPEARS TO HAVE BEEN ABLE TO ROLLOVER OUTSTANDING SHORT TERM LIABILITIES AT YEAR'S END WITH MINIMUM DIFFICULTY - ALTHOUGH SOME MARGINAL CREDITORS FRACTIONALLY INCREASED RATES. AS IN 1975 WHEN SAUDI GUARANTEED \$200 MILLION FINANCING OF SUDAN DEVELOPMENT CORPORATION PROVIDED SUBSTANTIAL BOOST TO BALANCE OF PAYMENTS, A SAUDI DEPOSIT OF \$150 MILLION IN THE FIRST HALF OF 1976 WITH BANK OF SUDAN APPEARS TO HAVE BEEN THE KEY ELEMENT OF BOP SUPPORT PERMITTING CONTINUANCE OF AMBITIOUS DEVELOPMENT PLANS. (INCIDENTALLY, THERE IS NO INDICATION THAT ADDITIONAL SAUDI BOP SUPPORT WHICH WAS WIDELY RUMORED AT THE TIME OF KING KHALID'S VISIT HAS BEEN RECEIVED.) SIMILAR SAUDI OR OTHER ARAB BOP INFUSIONS FOR AT LEAST SEVERAL YEARS WILL BE REQUIRED.

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9. MOST OBSERVERS ARE OPTIMISTIC ABOUT SUDAN'S ECONOMIC PROSPECTS. TRANSPORTATION BOTTLENECKS ARE SLOWLY BECOME OVERCOME. IT REMAINS TO BE SEEN WHETHER LACK OF HUMAN RESOURCES CAN BE SO EASILY SURMOUNTED. HOWEVER, THE WILLINGNESS OF ARAB INVESTORS TO DEVELOP SUDAN'S TREMENDOUS AGRICULTURAL POTENTIAL IS ENCOURAGING. FOR EXAMPLE, THE ARAB AGRICULTURE AUTHORITY FOR INVESTMENT AND DEVELOPMENT (AAAID) IS PLANNING \$6 BILLION IN SUDANESE INVESTMENT IN THE NEXT

TEN YEARS (SEE 76 KHARTOUM A-101). SIMILARLY, DEVELOPMENT OF SUDAN'S MINERAL RESOURCES APPEARS ATTRACTIVE. MAJOR EXPLORATION PROJECTS FOR PETROLEUM AND URANIUM ARE UNDERWAY. IT APPEARS THAT JAPANESE ARE ABOUT TO DEVELOP SIGNIFICANT CHROME DEPOSITS. DEVELOPMENT OF OTHER MINERAL RESOURCES ARE BEING CONSIDERED. EXPORT BENEFITS FROM MINERAL EXPLOITATION COULD PROVIDE SIGNIFICANT BOOST TO SUDANESE EXPORT EARNINGS BY EARLY 1980'S. BREWER

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